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SIPDIS

USTR FOR BHARMAN
USAID FOR LAC, EGAT, JKUNEN
TREASURY FOR MMALLOY
COMMERCE FOR 4331/MAC/WH/MCAMERON
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SUBJECT: PERU'S CONSUMER BOOM

11. Summary: Peru's macroeconomic performance is converting into a broader based consumer boom. Growing demand is marked by a diverse range of goods and services led by construction, sales of electronics, new cars and domestic appliances. Consumer credit is also expanding exponentially. The increased level of consumer spending is not limited to the top echelon of Peru, but spreading to lower classes as well. Increased domestic consumption is expanding beyond Lima to the coastal cities. End summary.

12. Peru's macroeconomic performance has been stellar for the past 60 months. Since the Fujimori administration in the 1990s, exports and foreign investment have been keys to the country's economic success. Recent government figures show poverty declining, yet the consumer boom in the last two years has been equally impressive. Not only has consumer spending increased among the upper class (class A), but spending is up in classes B, C and D, particularly on domestic appliances. The boom has been accompanied by an increase in consumer credit.

GROWTH IN THE PROVINCES

13. There are signs that major provincial cities are sharing in the growth. Bank loans grew 129 percent in the provincial towns in the last five years, more than tripling the Lima rate of 40 percent, according to the Superintendency of Banks, Insurance, and AFP (SBS). Over the past few years, provincial towns have been increasing their representation in the micro-loan market, to just over 20 percent. In addition, shopping malls, backed in part by Chilean investments, are expanding into lower-middle class areas and provincial cities such as Trujillo, Arequipa, Chiclayo, and Piura.

CONSTRUCTION SECTOR LEADING GROWTH

14. The construction sector alone has shown a growth level that is set to top 15 percent this year. According to Peru's Central Reserve Bank, \$2.8 billion was invested exclusively in the real estate sector, so far in 2007. In 2007, new investment in the construction sector so far was up 372 percent from (last year, last period), topping \$139 million, from \$29 million. According to Capeco (Peru's constructors association), the sector is projected to account for 2 percent of total GDP for Peru.

SALES AND IMPORTS UP, AS PRICES FALL

15. Purchases of domestic appliances, particularly in the C and D classes, are up. Sales of television sets, ovens, refrigerators, radios, dishwashers, and microwaves have been strong as prices for some goods have declined by 30 percent so far this year. Peruvian domestic appliance sales are \$750 million this year, up 20 percent from last year. Within the first seven months in 2007, domestic appliances and electronics sales grew at a rate of 25 percent, according to the Superintendencia Nacional de Administracion Tributaria (SUNAT), Peru's tax and customs agency. According to Javier Butrsn, the president of the Domestic Appliances and Chamber of Commerce Committee in Lima, indicated that Christmas sales of domestic appliances will be approximately \$170 million, up 13 percent this year as compared to last year. Purchases of these products will be particularly strong in provincial towns such as Trujillo, Piura, Chiclayo and Arequipa, which have experienced recent commercial development.

CREDIT CARD USE ON THE RISE

16. Both the middle class and portions of the lower class are gaining access to the credit market. After airfare, Lima citizens are using credit cards to buy domestic appliances, electronics, and clothing. Total credit card transactions jumped to \$1.88 billion in June 2007, a 32.9 percent increase from the same period last year, according to ASBANC (Peru's Banking Association). Consumer credit card usage for June 2007 totaled \$1.58 billion, an amount that more than doubled the \$ 701 million used in 2004 during the same month. Saga Falabella and Ripley, large Chilean department stores, entered this market aggressively through their financial arms, accounting for about 40 percent of the market for several years. Since the introduction of credit services by Financiera CMR, formerly Banco Falabella in 1995, they have amassed more than 1.2 million clients. According to APOYO Publications the banking arm of Saga Falabella accounts for 21 percent of credit card holders in Peru. Financiera Cordillera, previously Banco Ripley, represents 16 percent of credit card holders in May 2007.

17. Some warn that the controls on credit card issuances are too loose. Juan Jose Marthans, former Superintendent of Banks and Insurance, told us he thought the issuance of credit cards has become "excessive." Nevertheless, credit cards are being offered to the C and D populations, and default rates are comparable with those in the United States and Chile. Statistics show that credit card users in the C and D segments have 3-4 cards as opposed to the A and B classes, which have 1-2. According to Juan Carlos de la Fuente, General Manager at Banco Sudamericano, classes C and D are using credit cards to finance basic goods like groceries, while classes A and B are using credit cards to pay for on-the-spot purchases (gasoline or eating-out, etc.) and major expenditures (i.e. travel) sometimes paid in installments.

18. Cell phone purchases have also risen sharply over the past few years. Cell phone sales were \$52.3 million in July 2007, up from \$21.9 million the July before. Cell phone usage has also shown a major increase. The most drastic increases occurred in rural areas outside of Lima such as Huancavelica, Madre de Dios and Pasco where cell phone usage increased 2,337 percent, 2,077 percent and 1,870 percent, respectively.

INTERNET USAGE: PERU BEATS COLOMBIA

19. Internet usage has been increasing during the last couple of years. Out of the total 6.1 million estimated internet users in Peru, 1.53 million internet users were added in the last two years. Peru is significantly higher in both total internet usage and as a percentage, at 21.1 percent of the population's internet users, than its neighbors Colombia (15.8 percent), Ecuador (8 percent), and Bolivia (5.1 percent). Internet cafes, ubiquitous in Peru's main cities, can now be found in small towns all over Peru. According to Maximize consulting company, computer imports rose to \$321 million in 2007, up 16.1 percent from last year.

TARIFFS DOWN AND NEW CAR SALES UP

10. Recent consumer trends indicate new car sales and imports are

growing drastically. Overall new car sales grew 54 percent in July when compared to last year. The same was true for the new family models (i.e. station wagons and sedans), where sales increased 38.6 percent in the same period. Commercial demand accounted for the majority of sales at 79.1 percent. During the 1980's the government prohibited the importation of vehicles and only Nissan, Toyota and Volkswagen brands were available, which had assembly plants in the country. When vehicle imports were allowed, customs duties on new automobiles were extremely high, approximately 30 percent. During the Fujimori years (1990-2000), Peru imported second-hand Japanese cars rather than buying new vehicles.

COMMENT

¶11. Until just after the April 2006 general elections, the favorite claim of the political forces that oppose free market policies was that Peru's vigorous growth had not trickled down to the lower echelons of the country's society. While much of the good news is limited to urban and coastal areas, lower income segments of the population are indeed sharing in the growth. Shopping malls are flourishing in parts of Lima which only ten or fifteen years ago were still shanty towns, victims of poverty and often terrorism. There is serious work left to be done in and east of the Andes, but this consumer-driven boom is helping improve the standards of living of a growing urban lower middle-class segment of Peruvians.